

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: August 6, 1962

SUBJECT: 1) Cotton Textiles; 2) Suppoenaing of Shipping Documents; 3) Escape Clause Investigation on Chinaware and Earthenware; 4) United States-Japan FCN Treaty

PARTICIPANTS: Ambassador Koichiro Asakai, Embassy of Japan
 Mr. Nobuyuki Nakashima, Acting Economic Counselor, Embassy of Japan
 Mr. Michiyoshi Kawada, Commercial Secretary, Embassy of Japan
 Mr. G. Griffith Johnson, Assistant Secretary for Economic Affairs
 Mr. Vernon G. Setser, Commercial Policy and Treaties Division
 Miss Thelma E. Vettel, Special Assistant to the Director for East Asian Affairs

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Embassy, Tokyo
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During a courtesy call on Assistant Secretary Johnson, Ambassador Asakai asked if he might take up certain specific problems (cotton textiles, the United States request for certain shipping documents, and the pending escape clause investigation on chinaware and earthenware). Mr. Johnson also raised the matter of the reported Japanese Government desire to request amendment of the United States-Japan Treaty of Friendship, Commerce and Navigation.

1. Cotton Textiles

Ambassador Asakai said that he understood that a problem had arisen in connection with the United States-Japan bilateral cotton textile agreement regarding the definition of certain articles. He made the following points:

1) The Japanese cotton textile industry has been very friendly toward the United States and has enjoyed great and close friendly contact with the United States industry. He noted that the Japanese textile industry is "also" politically powerful.

2) The Japanese have in good faith observed their voluntary restrictions on cotton textile exports to the United States over the past five years. He remarked that the United States industry had expressed satisfaction with Japanese performance under its voluntary program. He emphasized that Japan

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had not behaved as had certain other countries (e.g. Hong Kong, Portugal, etc.) with respect to uncontrolled exports to the United States.

3) With respect to the United States view that there were excessive exports to the United States of certain items, the Ambassador expressed the view that this was the result of misunderstanding or lack of understanding on definition at the initial stage.

4) The Ambassador emphasized that Japan intends to keep the agreement in good faith. If they are convinced that there is an excess of exports and an adjustment is needed, the Japanese are willing to take care of it. He repeatedly stressed the desirability of reaching an understanding first and expressed the Japanese desire to come to an early understanding on the question.

In response Mr. Johnson said that this problem presents very acute problems on the United States side. The United States Government is under a good deal of pressure at this time. He said that the United States is grateful for the extent of Japanese government and industry cooperation in the past, and believes it is of utmost importance that the matter continue in this channel. It is for this reason that we are particularly concerned at this time. He noted that representatives of the Japanese Embassy and the United States Government have been discussing the matter in detail for some time. The problem presents the greatest difficulty, however, from the timing point of view and with respect to shorts and trousers and blouses. He expressed the hope that the problem could be solved at the earliest possible time. He pointed out that the problem comes at a time when the United States is experiencing difficulty in a number of areas. The United States has restraining orders outstanding on a large number of articles and is under great pressure regarding these imports.

The Ambassador reiterated his statement that the Japanese Government is in complete good faith with respect to the agreement. If blouses and trousers are being exported by Japan with the intent to by-pass the agreement, he said, the situation must be corrected. If, however, it is consistent with commercial practice to count certain blouses and pants as sets, it is natural for Japan not to count them separately. He again emphasized Japanese willingness to come to an understanding. He asked that the United States refrain from suspending imports to allow time to work out an agreement.

Mr. Johnson said suspension of imports was the last thing the United States wanted to have happen. But he emphasized that time was of the essence.

2. Suppoenaing of Shipping Documents

Referring to the Maritime Commission's request that Mitsui Shipping Company supply certain documents, the Ambassador said the Japanese Government does not agree that these documents located in Japan or in third countries can be suppoenaed. He expressed the view that this could become a very serious diplomatic problem.

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The Ambassador also referred to his information that an indictment of certain shipping companies by the grand jury in New York was likely. He referred to Minister Nishiyama's earlier call on Mr. Johnson regarding this problem. He said that if the matter should become a judicial question it would be difficult to handle. Referring to a discussion in 1960 between the Japanese Foreign Minister and Mr. Merchant, the Ambassador said that the Foreign Minister had been given to understand that before this case went to the judiciary, there would be consultation with the Japanese Government. He asked to be informed of the status of the matter.

Mr. Johnson said that Minister Nishiyama's proposal had been passed on to the Maritime Commission but no response had yet been received. He expressed the hope that a way could be found to work out this problem both in conformance with United States laws and in conformance with the views of the maritime countries. He pointed out, however, that it would not be a normal procedure to open the matter up for consultation prior to grand jury action. This is, of course, a legal question. He said the problem was being looked into and the Embassy would be informed.

3. Escape Clause Investigation on Chinaware and Earthenware

Ambassador Asakai referred to the recently completed Tariff Commission hearings on chinaware and earthenware imports. He characterized this item as a typical good example of orderly marketing in the United States on the part of Japanese exporters. He said that United States makers and dealers had pressed the Japanese industry to come into the hotelware field, but the Japanese refused to enter this sensitive field. He said the United States tariff is already 40 to 50 percent ad valorem. If that tariff were raised, the Japanese would feel it was not a valid case of disorderly marketing. He said 55 percent of Japan's production of "pottery" relied on exports and 50 percent of its exports were to the United States. This is an industry concentrated primarily in the Egoya area which would be seriously affected by a tariff increase. He reiterated that this Japanese industry had a very good record in its marketing in the United States.

Mr. Johnson thanked the Ambassador for his comments and said they would be brought to the attention of the appropriate people.

4. The United States-Japan Treaty of Friendship, Commerce and Navigation

Mr. Johnson said the United States understood that the Japanese Government currently has under consideration a proposal to amend the Treaty of Friendship, Commerce and Navigation, particularly as it affects foreign investment. He said the United States considers this matter to be of sufficient importance to present its views to the Japanese Government even in the absence of a formal proposal. Mr. Johnson stressed the following points:

- 1) The action proposed by Japan would constitute a backward step on the part of Japan.

2) It would constitute a movement on the part of Japan in the direction of commercial and industrial protectionism.

3) It would be a backward step from the general pattern of treaty provisions between the industrialized countries. Removing Japan from this general pattern would be a most unfortunate development.

4) It would have a widely damaging effect from the public viewpoint. We do not believe that such a step is necessary from the Japanese standpoint. Increased foreign investment would not be detrimental to Japan; foreign investment in the past has, in fact, been beneficial.

5) This treaty, in force for 9 years, has been beneficial to Japan. Now that the restrictions which Japan has been exercising for balance of payments reasons are no longer necessary, the United States feels it would be most unfortunate if Japan turned the clock back in another field, in effect, to reinstate that type of restriction at this time.

Mr. Johnson handed the Ambassador a memorandum setting forth the United States view (attached).

The Ambassador responded that this was not an easy problem for Japan. He said that moving to Article 8 of the IMF Charter was a great step for Japan and the Japanese feel they must make an "adjustment" in undergoing that change. Referring to Mr. Johnson's remarks that Japanese industry was vigorous, the Ambassador said this was superficial and there were many weak points in Japanese industry. The great question for the Japanese Government is how to tide over this change--a question he characterized as a difficult one for the future.

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FROM: TOKYO

TO: Secretary of State

NO: 452, AUGUST 16

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I TOOK OCCASION OF MEETING YESTERDAY WITH VICE MINISTER TAKEUCHI TO REITERATE SERIOUS CONCERN OF USG WITH REPORTED INTENTION OF GOJ TO REQUEST RENEGOTIATION OF FCN TREATY. I REFERRED TO POINTS IN TALKING PAPER GIVEN BY DEPARTMENT TO AMBASSADOR ASAKAI, STRESSING THAT JAPAN'S EXTRA-ORDINARY RECORD OF ECONOMIC GROWTH IN POSTWAR PERIOD WAS IN PART RELATED TO INVESTMENTS BY U.S. FIRMS AND ASSOCIATED TECHNICAL AND LICENSING AGREEMENTS. I EXPLAINED THAT IT WOULD BE DIFFICULT FOR AMERICAN BUSINESS COMMUNITY TO ACCEPT NEW RESTRICTIONS ON AMERICAN INVESTMENT IN JAPAN IN VIEW THIS RECORD AND EXPRESSED HOPE THAT GOJ WOULD FIND IT IN JAPAN'S OWN INTEREST TO CONTINUE TO INVITE FOREIGN INVESTMENT WHICH WOULD CONTRIBUTE TO FURTHER GROWTH.

TAKEUCHI SAID GOJ AWARE OF OUR CONCERN AND STRESSED THAT WHILE TALKS WERE GOING ON IN ONE OF TWO GOVERNMENT AGENCIES, THE MATTER HAD NOT YET BEEN PUT UP TO CABINET OR VICE MINISTERIAL LEVEL. AS RESULT OF EXPRESSIONS U.S. CONCERN, FONOFF HAD DECIDED TO TACKLE MATTER QUICKLY, HOPING TO ARRIVE AT SOME DECISION BEFORE SECOND MEETING OF JOINT ECON COM IN DECEMBER. TAKEUCHI POINTED OUT HOWEVER THAT OCTOBER 30 WAS ONLY THE FIRST DATE ON WHICH EITHER PARTY COULD GIVE NOTICE OF INTENTION TO RENEGOTIATE AND IT WAS QUITE POSSIBLE GOJ WOULD NOT ARRIVE AT DECISION UNTIL SOME TIME LATER.

TAKEUCHI CONCEDED THERE WAS "SOME ANXIETY" IN JAPANESE BUSINESS COMMUNITY OVER PROSPECT OF EVEN LARGER INFLOW OF

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1. FOLLOWING SHORT REFERENCE TO DELIVERY OF SECRETARY CONNOR'S LETTER TO MINISTER MIKI IN AN OBSCURE NEWSPAPER ON NOVEMBER 10, TWO MAJOR NEWSPAPERS ON NOVEMBER 12 AND TWO ON NOVEMBER 13 GAVE MAJOR ATTENTION TO THIS EVENT. THE PRESS ARTICLES HAVE MENTIONED SECRETARY CONNOR'S REFERENCE TO U.S. DISSATISFACTION OVER "NATIONAL TREATMENT" AND ONE NEWSPAPER SAID THE SECRETARY HAD DESCRIBED THE JAPANESE ATTITUDE ON THE SUBJECT OF CAPITAL LIBERALIZATION AS STUBBORN AND COUNTER TO THE SPIRIT OF FCN TREATY. PRESS CONCLUDED THAT LIKELIHOOD OF TI REJECTION OF GOVERNMENT OFFER INCREASED BY CONTENT OF SECRETARY'S LETTER. STATEMENT ALSO APPEARED THAT MITI HAD CONFERRED ON THE TI CASE ON

NOVEMBER 12 AND HAD DECIDED TO MAKE NO CHANGE IN ITS OFFER.

2. LONGEST ACCOUNT APPEARED IN "NIHON KEIZAI" NOVEMBER 13 UNDER HEADING "GOVERNMENT TO SEEK U.S. RECONSIDERATION ON QUESTION OF TI'S ADVANCE. THE THEME OF THE ARTICLE WAS THAT THE GOVERNMENT WAS BEING ANTAGONIZED BY TI REJECTION OF ITS OFFER AND ALSO BY THE POSITION BEING TAKEN BY THE U.S. IN CHARGING JAPAN WITH VIOLATION OF THE FCN TREATY. AMONG OTHER THREATS APPEARING IN THIS ARTICLE WERE THE POSSIBILITY OF ABROGATING THE TREATY, A REQUEST FOR NEGOTIATIONS THROUGH DIPLOMATIC CHANNELS AND THE POSSIBILITY OF RETURNING THE TOW APPLICATIONS FROM THE AMERICAN COMPANIES OF EATON, YALE AND TOWNE FOR A JOINT VENTURE TO PRODUCE LOCKS AND FORGE TO PRODUCE NUCLEAR FUEL CELLS. THE STATEMENT WAS ALSO MADE THAT THE ATTITUDE OF THE U.S. GOVERNMENT IN VIEW OF THE "FORWARD LOOKING" POSITION OF THE GOJ MIGHT IMPAIR NOT ONLY THE EXISTING FRIENDLY RELATIONS BETWEEN THE TWO COUNTRIES BUT COULD ALSO DISCOURAGE THE PROGRESS CURRENTLY UNDER WAY TOWARD

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CAPITAL LIBERALIZATION.

3. THE SAME ARTICLE SAID THAT THE CONTENTION OF THE GOJ THAT ITS ACTIONS WERE NOT IN VIOLATION OF THE FCN TREATY HAD BEEN

AFFIRMED BY THE CABINET IN MARCH 1964 AND THAT THIS VIEW HAD BEEN CONVEYED TO THE U.S. GOVERNMENT ON A NUMBER OF SUBSEQUENT OCCASIONS. PARAGRAPH 2 OF ARTICLE 6 AND PARAGRAPH 6 OF THE PROTOCOL OF THE FCN TREATY WERE MENTIONED AS WAS PARAGRAPH 3 OF ARTICLE 6 OF THE IMF AGREEMENT.

4. TI'S REPLY TO MITI DELIVERED NOVEMBER 10. NO PRESS REFERENCE SO FAR TO THIS STEP OR TO CONTENT.

5. EMBASSY RECEIVING INCREASING INQUIRIES FROM PRESS ABOUT CONNOR LETTER AND ISSUES INVOLVED. REQUEST BEING MADE TO SEE CONNOR LETTER IN VIEW FACT JAPANESE PRESS CARRYING SUMMARY AND EVEN BRIEF QUOTES FROM IT. EMBASSY REQUESTS GUIDANCE FOR PRESS TREATMENT ASAP INCLUDING VIEW ON RELEASE CONNOR LETTER EITHER LOCALLY OR IN WASHINGTON. AS REPORTED REFTEL EMBASSY AGREED NO RELEASE LOCALLY AND MINISTER MIKI PROMISED CONSULT EMBASSY BEFORE DOING SO. ALTHOUGH PRESS HAS NOT CARRIED FULL TEXT OF LETTER IT OBVIOUS THAT MITI HAS AT MINIMUM ENABLED PRESS OBTAIN INSIGHT INTO DETAILS OF LETTER. JOHNSON
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FROM COMMERCE

1. In view leak Connor-Miki letter by MITT and resulting garbled versions, we think it would be advisable to release full text. If Embassy concurs, release is authorized after informing MITT.

2. In relations with press see no need for Embassy, at this time, to go beyond views contained Connor letter except to make it clear that such views reflect official USG position.

3. For present purposes, if GOJ officials orally raise substantive points re interpretation FCN, Embassy may draw on Department's CA-2879 as appropriate. Our inclination not (REPEAT) not to give GOJ written statement re technicalities this issue unless and until GOJ first provides us with its written views. This connection, confirm that QUOTE paragraph 2 of Article 6

UNQUOTE noted para 3 Embtel 3578 should read paragraph 2 of Article 12

(REPEAT) 12.

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END

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